STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

UNITED HEALTHCARE OF UTAH
OF
SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2004

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November 14, 2005

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

UNITED HEALTHCARE OF UTAH

Salt Lake City, Utah

a nonprofit Health Maintenance Organization (HMO), hereinafter referred to as the Organization, was conducted as of December 31, 2004.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's (Department) last financial examination of the Organization was conducted as of December 31, 1999. The current examination covers the period from January 1, 2000 through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted in accordance with standards prescribed in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, NAIC Accreditation Standards and Department policy. It included tests of the accounting records and a review of the Organization's affairs and practices to the extent deemed necessary. Permitted assets and required liabilities were valued in accordance with laws, rules, and procedures prescribed by the state of Utah.

The examination included a general review and analysis of the Organization's operations during the examination period to determine its compliance with regulatory standards, financial condition as of December 31, 2004, and probability of continued successful future operations. Since the Organization's records and transactions were recorded on systems owned and maintained by parent and affiliate companies, controls associated with those systems were evaluated in conjunction with an appraisal of the governance environment under which the Organization functioned.

Information was reviewed evidencing both external and internal audits of systems upon which the Organization's transactions and records were maintained. Two different certified public accounting firms conducted the external audits. The audits were considered in assessing the existence and functionality of controls within the systems.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Items of significance commented on in the prior report of examination were addressed by the Organization in the current examination period

HISTORY

General

The Organization was issued a Certificate of Incorporation, under the name of Physicians Health Plan of Utah, by the Office of the Lieutenant Governor of the state of Utah during March 1984. The initial Articles of Incorporation authorized the issuance of 5,000,000 shares of stock at a par value of $.01 each. The Organization was issued a Certificate of Authority by the Department and commenced business during August 1984. The Articles of Incorporation were amended during July 1992 to change the name of the Organization to United HealthCare of Utah.

The Organization became part of an insurance holding company system on December 30, 1986, when United HealthCare Services, Inc. (UHS), a Minnesota corporation then known as Charter Med Inc., acquired 50% equity interest in it. A cash offer was made to purchase all outstanding shares of the Organization in November of 1990 by UHS, then known as UHC Management Company. The offer expired January 31, 1991, at which time UHS stock ownership approximated 85% of the total outstanding shares. UHS again increased its ownership of the Organization to approximately 92% in December of 1994 through a tender offer. UHS was a wholly owned subsidiary of United HealthCare Corporation (United), the ultimate controlling entity of the holding company system.

Effective March 6, 2000, United changed its name to UnitedHealth Group, Inc. The holding company system was then restructured when UHS transferred all of its outstanding shares of the Organization to its wholly owned subsidiary, UnitedHealthcare, Inc., on June 30, 2000. UnitedHealthcare, Inc.'s primary function was that of a holding company. During the years 2000, 2001 and 2002, UnitedHealthcare, Inc., the immediate parent of the Organization, acquired 66 shares of the Organization from minority shareholders, thereby increasing its aggregate ownership of the stock to 2,279 shares, representing approximately 96%.

The Organization received $27,000,000 as additional paid-in capital contributions during the examination period. UnitedHealthcare, Inc. contributed $3,000,000 in the year 2000 and $23,000,000 in the year 2001. United Health Services, Inc. contributed $1,000,000 to the Organization during the year 2000.

The Organization was federally qualified as an independent practice association model health maintenance organization on October 4, 1985. It voluntarily relinquished its federal qualification on November 9, 1991.

Capital Stock

The number of shares of stock authorized by the Organization as of December 31, 2004, was 5,000 at a par value of $50 per share. The number of shares issued and outstanding was 2,379. The Organization was immediately controlled by UnitedHealthcare, Inc. and ultimately controlled by UnitedHealth Group Incorporated.

Dividends to Stockholder

No dividends were declared or paid during the examination period.

Management

The following directors were elected by the shareholders of the Organization and were serving as of December 31, 2004:

Name	Principal Business Affiliation
Benton V. Davis Scottsdale, Arizona	Chief Executive Officer Western States UnitedHealthcare, Inc. President and Chief Executive Officer United HealthCare of Utah
Kenneth A. Burdick Paradise Valley, Arizona	Chief Executive Officer Western Region UnitedHealthcare, Inc. Vice President United HealthCare of Utah
Jaron L. Johnson Salt Lake City, Utah	Chief Financial Officer Western States UnitedHealthcare, Inc.

U.C.A. § 31A-5-407(2) requires the majority of the Organization's directors to be residents of the state of Utah. Two of the Organization's three directors are non-residents, which is not in compliance with U.C.A. § 31A-5-407(2). During the examination, the Organization requested the Department provide a waiver from the requirement. The Organization stipulated to this violation and paid a forfeiture assessed by the Department. The Department provided a waiver, effective January 1, 2005, which allows the Organization to operate without a majority of its directors being residents of Utah. The Department has the discretion to rescind the waiver at any time if it is determined there is inadequate attention to compliance with Utah statutes and rules.

The following officers were elected by the directors and serving as of December 31, 2004:

Position	Name
President and Chief Executive Officer	Benton V. Davis
Vice President	Kenneth A. Burdick
Treasurer	Robert W. Oberrender
Secretary	Michael J. McDonnell
Assistant Secretary	Timothy G. Caron
Assistant Secretary	David J. Lubben
Assistant Secretary	Mary L. Stanislav
Vice President – Tax Services	John W. Kelly
Vice President – Finance and Assistant Treasurer	George L. Mikan, III
Vice President and Assistant Treasurer	David S. Wichmann

No committees of the board of directors were designated or functioned during the examination period.

As of June 1, 2005, Karen L. Erickson was elected to serve as Vice President – Finance and Assistant Treasurer, and Juanita B. Luis was elected to serve as assistant Secretary. The title belonging to George L. Mikan, III was changed from Vice President – Finance and Assistant Treasurer to CFO, UnitedHealthcare, Inc. and Assistant Treasurer, effective May 30, 2005.

Conflict of Interest Procedure

The Organization had an established procedure for disclosure of any material conflict of interest known by officers, members of the board of directors and key personnel. Conflict of interest disclosures were obtained annually during the examination period. No violations of established Organization procedures were noted.

Corporate Records

In general, the minutes of the meetings of stockholders and directors adequately approved and supported Organization transactions and events. The board of directors reviewed the prior examination report in a meeting held July 15, 2002. Much of the business conducted by the Directors was done telephonically and recorded as written action in lieu of meetings.

Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales through Reinsurance

The Organization participated in no acquisitions, mergers, disposals or purchases or sales through reinsurance during the examination period.

Surplus Debentures

There were no surplus debentures issued or outstanding during the examination period.

AFFILIATED COMPANIES

The Organization is a member of the UnitedHealth Group, Inc. insurance holding company system as shown in the following abbreviated organizational chart derived from Annual Statement, Schedule Y as of December 31, 2004.

- UnitedHealth Group, Inc.
  - United HealthCare Services, Inc.
    - UnitedHealthcare, Inc.
      - United HealthCare of Utah

Agreements with Affiliates

Affiliate agreements, as itemized below, defined and controlled various aspects of the Organization's transactions and operations.

Management Agreement with United HealthCare Services, Inc.

The Organization has a management services agreement with its parent, United HealthCare Services, Inc. (UHS). The agreement was initially executed as of January 1, 1993. UHS provides many of the services necessary for the Organization's operation under the agreement. Those services include:

Claims processing, payment to providers, and other administrative activities
Development and implementation of standardized contracts
Assistance in compliance with applicable laws and regulations
General administrative and financial services
Underwriting services/internal audit services
Support and oversight of marketing, sales, member services, and medical services
Legal services
Assistance in marketing, membership, and public relations material
Recruitment, compensation, and supervision of on-site personnel

Marketing, advertising, promotional, and educational material
Retention of adequate office space, furniture, and equipment
Payments related to consultants or third party advisors.

Administrative fees payable to UHS for the above referenced services are a percentage of the Organization's monthly gross revenues.

Tax Sharing Agreement with United HealthCare Corporation (UnitedHealth Group, Inc.)

The Organization's federal tax obligations were reported in the ultimate controlling parent's consolidated federal income tax return pursuant to an agreement effective as of January 1, 1990, as amended effective January 1, 1996. The agreement provided for the allocation of federal, state and local income taxes to the subsidiaries of the parent, essentially on the basis of their contribution to the consolidated tax return.

Subordinated Revolving Credit Agreement with United HealthCare Corporation (UnitedHealth Group, Inc.

The Organization has a subordinated revolving credit agreement with UnitedHealth Group, Inc., under which the parent agreed to lend and re-lend amounts to the Organization for up to $6,000,000. Repayments are subordinate to claims of non-affiliated creditors and loans from non-affiliate lenders of the Organization. Interest is payable at the one month London InterBank Offered Rate (LIBOR) in effect on the last business day of the calendar month prior to the calendar month for which interest is calculated plus fifty basis points. No amounts were outstanding under the line of credit as of December 31, 2004.

Reinsurance Agreement with United HealthCare Insurance Company

Reference the REINSURANCE section of this report.

Insolvency Reinsurance Agreement with United HealthCare Insurance Company

Reference the REINSURANCE section of this report.

Contract with United Behavioral Systems, Inc.

On January 1, 1994, the Organization contracted with United Behavioral Systems, Inc., now known as United Behavioral Health, to provide or arrange for the provision of mental health and substance abuse services to members. Payment for services provided is calculated on a per member per month basis.

Transplant Services Agreement with United Resources Networks

The Organization contracts with United Resources Networks, a division of UHS, to provide enrollees access to transplant related health care services and supplies. Payment for services provided is calculated on a per member per month basis.

Master Services Agreement with American Chiropractic Network (ACN Group)

The Organization has an agreement with ACN Group to provide network management of chiropractic and alternative medical services for its enrollees. Under the clinical support program, payment for chiropractic services to enrollees is calculated on a per member per month basis.

Spectera Master Services Agreement

Effective January 1, 2005, the Organization entered into a Participating Organization Addendum to the Spectera Master Services Agreement. Under the Agreement, Spectera became responsible for developing, contracting and managing a network of vision providers, who provide vision services and/or products for the Organization's enrollees. Payment for services provided is calculated on a per member per month basis.

Dental Benefit Providers Master Services Agreement

Effective January 1, 2005, the Organization entered into a Participating Organization Addendum to the Dental Benefit Providers Master Services Agreement. Under the Agreement, Dental Benefit Providers (DBP) became responsible for developing, contracting and managing a network of dental providers to provide dental health care services for the Organization's enrollees. Payment for services provided is calculated on a per member per month basis.

Healthy Pregnancy Services Agreement

The Organization is party to an agreement between UHS and Optum®, a division of UHS, through which enrollees received healthy pregnancy services by registered nurse by telephone. The referenced healthy pregnancy services, includes educational information and periodic telephonic pregnancy screening assessments regarding potential risks. Payment for services provided is calculated on a per case rate.

Optum® Services Agreement

The Organization transitioned from previous agreements with the Optum® division of UHS to using a Participating Plan Addendum to the Optum® Services Agreement. The Optum® Services Agreement includes an Optum®24 Services Addendum which includes the Care24 and nurseline services plus additional services under the Optum® Health and Well Being Information Services Addendum. The agreement was amended, effective January 1, 2005, to state rates effective in 2005.

Premium Allocation Agreement with United HealthCare Insurance Company

The Organization entered into an agreement under which United HealthCare Insurance Company (UHIC), an affiliate and subsidiary of UHS, receives consideration for insurance coverage marketed and issued in conjunction with the Organization's products. Section II of the agreement provides that premiums allocated to UHIC shall be (i) fair and reasonable; (ii) determined according to actuarial review conducted at least annually; (iii) allocated in conformity with customary insurance accounting practices consistently applied.

FIDELITY BOND AND OTHER INSURANCE

As employees of a subsidiary of UnitedHealth Group, officers of United HealthCare of Utah and employees of affiliates performing the functions necessary for the Organization's operations were covered by a blanket crime policy with a coverage limit of $25,000,000 as of December 31, 2004. The blanket crime coverage exceeded the minimum suggested by the National Association of Insurance Commissioners (NAIC). The range of the suggested coverage is $450,000 to $500,000.

In addition to blanket crime coverage, the Organization was named as an insured on policies providing for executive and organization liability coverage, managed care professional liability coverage, general liability coverage, business auto coverage, and umbrella liability coverage.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Organization does not have any employees. Employees of United HealthCare Services, Inc., the parent of UnitedHealthcare, Inc., performed many of the functions necessary for the Organization's operation. With no employees, the Organization does not provide any employee benefits such as group life and medical insurance, cafeteria plans or unfunded pension plans.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-8-211, the Organization was required to maintain a statutory deposit of $566,452 as of December 31, 2004. A U.S. Treasury Note with a fair value of $997,540 was maintained through the Department to satisfy the requirement.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2004, the Organization's core products were Choice, Choice Plus, Select and Select Plus. Its risk retention was the first $150,000 of each eligible inpatient loss plus 20% of each loss in excess of the initial retention. The maximum annual coverage per member was $2,000,000. Effective January 1, 2005, this coverage was replaced by insolvency reinsurance coverage under which the Organization was reinsured only in the event of insolvency.

All core products written had policies with unlimited benefits. U.C.A. § 31A-20-108 does not permit an organization to expose itself to loss on any single risk in an amount exceeding 10% of its capital and surplus. The issuance of policies with unlimited benefits exposed the Organization to greater risk than permitted by this section. The maximum retained single risk allowed, based on the Organizations capital and surplus, was $2,822,599.

Territory and Plan of Operation

As of December 31, 2004, the Organization had a Certificate of Authority authorizing it to operate as a health maintenance organization in the state of Utah. It had contracts with approximately 3,200 independent physicians and other health care providers, using a network model, to deliver health care services to its members in Beaver, Box Elder, Cache, Carbon, Davis, Iron, Juab, Millard, Morgan, Sevier, Salt Lake, Sanpete, Tooele, Uintah, Utah, Wasatch, Washington and Weber Counties.

The Organization primarily markets its products through licensed brokers. An internal sales representative solicits new and renewal business through independent brokers. The internal sales representative's role is to educate independent agents about the Organization's products and assist them in the process of marketing those products. Independent agents are compensated by a flat percent of premium in larger cases, and on a per enrollee per month basis in smaller cases.

The Organization targeted groups having one hundred or more employees, however, it would accept groups with as few as two. It did not accept individual members except as conversions from group contracts.

Membership declined significantly during the examination period as illustrated in the following graph:-

Year	Membership (000's)
2000	168
2001	120
2002	55
2003	31
2004	16

Advertising and Sales Material

Locally, the Organization's products are generally advertised through sales brochures and complementary items distributed at enrollment meetings. At times, it sponsors local community events such as the American Heart Association Heart Walk and Heart Ball to gain positive name recognition in the Utah market place.

UnitedHealthcare, Inc. began a national consumer advertising campaign in 2004 using print, radio and television mediums. None of the advertising or sales material reviewed by the examiner appeared inconsistent with policy information observed.

Treatment of Policyholders

The Organization maintains a general complaint log and mental health complaint log to identify membership complaints and the processing status of those complaints.

Forty-three (43) justified complaints were filed by members of the Organization with the Department during the examination period. None of the complaints were outstanding as of December 31, 2004. A breakdown by year follows:

Year	# of Complaints
2000	6
2001	19
2002	8
2003	10
2004	0

REINSURANCE

The Organization obtained reinsurance coverage through an excess risk stop loss agreement with United HealthCare Insurance Company, an affiliate and subsidiary of UHS. The agreement was effective January 1, 1998, with coverage through December 31, 2004, when it was superceded. It covered eligible inpatient services. The deductible was $150,000 of the loss for each commercial member. Once the deductible was reached in a contract year, the affiliate reinsured 80% of the excess loss per member. The affiliate reinsured 90% of eligible inpatient services at facilities formally credentialed by United Resource Networks as part of its transplant network, neonatal provider network, congenital heart disease network or oncology network. The maximum annual reinsurance coverage payable under the agreement for each member was $2,000,000. Premiums per member per month were reduced as of January 1, 2000, and remained at that level through the date the agreement was superceded.

The excess risk stop loss agreement was replaced by an insolvency reinsurance agreement with United HealthCare Insurance Company, effective January 1, 2005. The agreement provides coverage only in the event of the Organization's insolvency. Payments provided are payable by the affiliate reinsurer directly to the Organization's liquidator, receiver or statutory successor on the basis of the liability of the Organization under the policies without diminution because of the insolvency. The reinsurance premium payable is one tenth of one percent (0.1%) of the Organization's earned premium for the respective month.

ACCOUNTS AND RECORDS

As of December 31, 2004, many of the functions necessary for the Organization's operations were performed by a parent or affiliate companies under the terms of a management services agreement with United HealthCare Services. See section of this report entitled AFFILIATED COMPANIES. The Organization's accounting transactions and records were maintained on electronic data processing systems owned and operated by the parent or affiliate companies. The systems were interactive, allowing the Organization on-line access to the information.

Representatives of the Organization identified the primary processing functions and locations where those functions are conducted as follows:

Processing Function	Location
Actuarial	Hartford, Connecticut
Advertising-National	Edina, Minnesota
Claims	Kingston, New York; Greensboro, North Carolina; Tampa, Florida; Springfield, Missouri
Compliance-Regional	Phoenix, Arizona
Corporate Record Keeping	Minnetonka, Minnesota

General Ledger	Edina, Minnesota
Investments	Minnetonka, Minnesota
Cash Receipts	Oldsmar, Florida; Duluth, Minnesota;
Cash Disbursements-AP	Minnetonka, Minnesota
Cash Disbursements-Claims	Duncan, South Carolina
Marketing-National	Edina, Minnesota
Policy Forms	Salt Lake City, Utah
Provider Oversight Functions	Salt Lake City, Utah
Premium Oversight Functions	Oldsmar, Florida; Duluth, Minnesota;
	Edina, Minnesota

The Organization provided the examiner with electronic trial balances of general ledger accounts as of December 31 of each year in the examination period. The general ledger account balances were grouped by financial statement account balance. The criteria for review of individual general ledger account balances were determined by identifying the residual risk of material misstatement of the corresponding financial statement accounts. The residual risk of misstatement was assessed by the examination after considering the Organization's governance and internal control environment, in addition to internal and external reviews during the examination period.

A significant majority of the Organization's invested assets were held through an Amended and Restated Custodian Agreement (Agreement), dated April 30, 2002, between UnitedHealth Group and State Street Bank and Trust Company. Exhibit A to the agreement identified the Organization as a participant. The Agreement did not reflect all of the safeguards required by Utah Administrative Code (U.A.C.) Rule R590-178 and Section 15.3, which states, "This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts." An Addendum (Addendum) to the Agreement was executed during the examination under which all securities and other property held by the bank for the benefit of the Organization are governed by U.A.C. Rule R590-178 and U.C.A. Title 31A as well as the laws of the Commonwealth of Massachusetts provided that, if a conflict of law arises, U.A.C. Rule R590-178 and U.C.A. Title 31A will supercede any conflicting Massachusetts law. The Amended and Restated Agreement had not been authorized by a resolution of the Organization's board of directors in compliance with U.A.C. Rule R590-178 at the time of its execution. During the examination, the Organization's board of directors authorized the Addendum and Agreement by resolution in conjunction with the execution of the Addendum.

FINANCIAL STATEMENTS

The Organization's financial condition, as of December 31, 2004 and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2004
Statement of Revenue and Expenses – January 1, 2004 through December 31, 2004
Reconciliation of Capital and Surplus – January 1, 2000 through December 31, 2004

The accompanying Comments on Financial Statement are an integral part of these statements.

United HealthCare of Utah
Balance Sheet
As of December 31, 2004

ADMITTED ASSETS

	Amount	Notes
Bonds	$ 29,533,089	
Cash and short-term investments	4,671,536	
Investment income due and accrued	386,753	
Uncollected premiums and agents balances in course of collection	163,808	
Amounts recoverable from reinsurers	78,218	
Net deferred tax asset	197,570	
Total assets	$ 35,030,974	

LIABILITIES

	Amount	Notes
Claims unpaid	$ 5,428,899	
Unpaid claims adjustment expenses	171,784	
Aggregate health policy reserves	248,489	
Premiums received in advance	201,818	
General expenses due or accrued	346,758	
Current federal and foreign income tax payable and interest thereon	287,897	
Amounts withheld or retained for account of others	7,852	
Amounts due to parent, subsidiaries and affiliates	111,484	
Total liabilities	6,804,981	
Common capital stock	118,950	
Gross paid in and contributed surplus	36,148,589	(1)
Unassigned funds (surplus)	(8,041,546)	
Total capital and surplus	28,225,993	
Total liabilities and surplus	$ 35,030,974	(2)

United HealthCare of Utah
Statement of Revenue and Expenses
January 1, 2004 through December 31, 2004

	Amount
Net premium income	$ 46,645,210
Change in unearned premium reserves and reserve for rate credits	4,484
Total revenues	46,649,694
Hospital/medical benefits	30,709,867
Other professional services	68,769
Prescription drugs	5,175,009
Subtotal	35,953,645
Net reinsurance recoveries (expenses)	1,526,738
Total medical and hospital	34,426,907
Claims adjustment expenses	1,691,892
General administrative expenses	7,945,455
Increase in reserves for accident and health contracts	(795,973)
Total underwriting deductions	43,268,281
Net underwriting gain	3,381,413
Net investment income earned	1,497,242
Net realized capital gains or (losses)	19,681
Net investment gains	1,516,933
Other income	208
Net income before federal income taxes	4,898,554
Federal income taxes incurred	1,684,000
Net income (loss)	$ 3,214,554

United HealthCare of Utah
Reconciliation of Capital and Surplus
January 1, 2000 through December 31, 2004

	2000	2001	2002	2003	Per Exam 2004
Capital and Surplus December 31, previous Year	$ 9,062,514	$ 7,738,945	$24,367,638	$25,789,647	$24,946,936
Net income (loss)	(5,173,089)	(6,988,626)	3,399,850	(1,343,022)	3,214,554
Change in net deferred income tax			(848,348)	211,649	(49,036)
Change in non-admitted assets	(150,480)	3,085,591	(404,040)	288,662	113,539
Cumulative effect of changes in accounting principles		(2,468,272)			
Paid in surplus	4,000,000	23,000,000			
Aggregate write-ins for gains (losses) in surplus:					
Change in minority interest			(725,453)		
Net change in surplus for the year	(1,323,569)	16,628,693	1,422,009	(842,711)	3,279,057
Capital and Surplus December 31, current year	$ 7,738,945	$24,367,638	$25,789,647	$24,946,936	$28,225,993

COMMENTS ON FINANCIAL STATEMENT

(1) Gross Paid-in and Contributed Surplus $36,148,589

The Organization's gross paid-in and contributed surplus increased from $9,148,590 at January 1, 2000 to $36,148,589 at December 31, 2004. The increase resulted from $26,000,000 in contributions made by UnitedHealthcare, Inc. during 2000 and 2001, and from a $1,000,000 contribution made by United Health Services, Inc. during 2000.

(2) Capital and Surplus $ 28,225,993

As of December 31, 2004, the Organization's capital and surplus was $28,225,993. U.C.A. § 31A-8-209(1) required it to maintain minimum capital of $100,000 and minimum qualified assets in an amount not less than the total of its liabilities, minimum capital, and company action level Risk Based Capital (RBC) as defined in U.C.A. § 31A-17-601(8)(b). It had the required minimum capital and sufficient assets to meet the specified capitalization requirements, as shown below:

Admitted Assets	$35,030,974
Liabilities	6,804,981
Minimum Permanent Surplus	100,000
Company Action Level RBC	3,489,504
Total	10,394,485
Assets in Excess of Minimum Requirement	$ 24,636,489

SUMMARY

Items of significance or special interest contained in this report are summarized below:

(1) As of December 31, 2004, the Organization's capital and surplus pursuant to examination was $28,225,993. It had the required $100,000 minimum capital and sufficient assets to meet the capitalization requirements specified in U.C.A. § 31A-8-209. Its assets in excess of the minimum requirement were $24,636,489. (**COMMENTS ON FINANCIAL STATEMENT**)

(2) Twenty-seven million dollars was contributed to the Organization as additional paid-in capital during the examination period. (**HISTORY** and **COMMENTS ON FINANCIAL STATEMENT**)

(3) U.C.A. § 31A-5-407(2) requires the majority of the Organization's directors to be residents of the state of Utah. Two of the Organization's three directors are non-residents. The Organization stipulated to this violation and paid a forfeiture assessed by the Department. The Department provided a waiver, effective January 1, 2005, which allows the Organization to operate without a majority of its directors being residents of Utah. (**HISTORY**- Management)

(4) U.C.A. § 31A-20-108 does not permit an Organization to expose itself to loss on any single risk in an amount exceeding 10% of its capital and surplus. The issuance of policies with unlimited lifetime benefits exposed the Organization to greater risk than permitted by this section. The maximum retained single risk allowed, based on the Organization's capital and surplus, was $2,822,599. The statute does not provide adequate guidance for determining the exposure on a single risk in cases where policies are unlimited, however, the examiner noted in a study performed by the Organization's actuary the probability of a single risk loss in excess of 10% of capital and surplus appears to be remote. **(INSURANCE PRODUCTS AND RELATED PRACTICES** - Policy Forms and Underwriting)

(5) A significant majority of the Organization's invested assets were held through an Amended and Restated Custodian Agreement (Agreement), dated April 30, 2002. An Addendum to the Agreement was executed during the examination to remove any doubt regarding compliance with U.C.A. Title 31A and U.A.C. Rule R590-178. Since the Agreement had not been authorized by a resolution of the Organization's board of directors, as required by Rule R590-178, the board of directors authorized both the Addendum and Agreement by resolution in conjunction with the execution of the Addendum. The prior examination determined some investment custodial agreements in place at that time were not compliant with Rule R590-178. During the prior examination, an addendum was also executed and authorized by a resolution of the board of directors, bringing the agreements into compliance with U.A.C. Rule R590-178. **(ACCOUNTS AND RECORDS)**

CONCLUSION

The assistance and cooperation extended during the course of the examination by representatives of the Organization is acknowledged. Colette M. Reddoor, CFE, supervised the examination.

Respectfully submitted,

John Kay, CFE, CIE
Examiner-In-Charge
Representing the Utah Insurance Department